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ADOPTION OF THE REPORT OF THE GROUP ON ITS NINTH SESSION

Draft report

Addendum

Rapporteur: G. G. M. BAK (Netherlands)

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from individual member States, intergovernmental organizations and non-governmental organizations

1. At its 1st and 2nd meetings, on 5 March 1991, the Group discussed the report of the Secretary-General on important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1991/2). It found that the report was the best global review the Group had considered and was a thorough attempt to document global changes in the field of accounting and reporting. The report outlined a number of activities that could contribute to greater harmonization of accounting standards, such as the comparability project of the International Accounting Standards Committee (IASC), the formation of the international capital markets groups to study the real barriers to harmonization, the creation of a European accounting forum to advise

the European Commission on technical solutions for accounting problems not dealt with in the directives of the Council of Ministers of the European Communities, the discussion of accounting services in the Uruguay Round of multilateral trade negotiations and the changes in commercial legislation in Central and Eastern Europe.

2. The observer for IASC described the recent work of his organization, in particular the comparability project. He stated that the International Organization of Securities and Exchange Commissions (IOSCO) was giving considerable support to the project and once it was complete, it was the intention of IOSCO to require enterprises seeking listings on the various exchanges to use international accounting standards. One expert said that IASC should be congratulated on the effort it had invested in the comparability and improvements project. He also emphasized how important it was for the members of IOSCO to adopt, in due course, the resultant international standards as the basis of harmonization. Observers for other international organizations, such as the International Federation of Accountants and the International Assets Valuation Standards Committee, explained the work and recent activities of their organizations. One expert commented that, while efforts were taking place to harmonize accounting standards, efforts should also be undertaken to harmonize standard-setting activities among the various international organizations.

3. A number of questions were raised about the Uruguay Round, particularly concerning the proposals for mutual recognition of accounting credentials and the use of international accounting standards. If adopted, both could diminish barriers to trade and investment flows in services. Several members of the Group asked what role the Group could play in reviewing and/or implementing those proposals. The representative of the Centre explained that the proposals would probably appear as recommendations within the general framework agreement of the General Agreement on Trades and Services (GATS). However, once GATS was accepted, the mechanics for implementing mutual recognition and use of international standards would be left to the signatories. (The Working Group might wish to involve itself at that stage. It was decided that any decision to involve itself should be discussed in conjunction with the renewal of the Working Group's mandate.)

4. Much discussion centred around the accounting rules and practices of banks and insurance companies and the need for market valuation of securities. The observer for the European Community (EC) explained that the 1986 Council directive on the annual accounts and consolidated accounts of banks and financial institutions had introduced the principle of market valuation of securities for those bank securities that belonged to its dealing portfolio. It was expected that a similar EC directive concerning insurance companies would be adopted soon, which would extend the principle of market valuation to all investments held by an insurance company. If the investments were shown in the balance sheet at cost, the higher market value would have to be indicated in the notes.

5. The EC observer was also asked to comment on the EC rules regarding bad loan provisions in the case of banks. It was indicated that the situation in the EC was different from that in the United States because of a different regulatory environment. A distinction also had to be made between the general rules on

financial reporting and the supervisory rules for which a number of specific measures had been adopted in the EC. As far as financial reporting was concerned, the EC accounting directive for banks did not contain any specific rules on bad loan provisions: the general rules on value adjustments, therefore, had to be applied. In order to protect confidence in the banking industry, banks might be permitted to understate the value of certain assets within certain limits. In that case, banks had to create an open Fund for general banking risks that would allow them to release some of the hidden reserves.

6. A number of experts from developing countries spoke of events that might promote greater harmonization within their regions, such as the formation of regional accounting associations and regional trade blocs. They noted the absence of such information in the report and commented that a report of that kind should also examine the needs of developing countries and what was being done by developed countries to meet those needs. Developing countries' needs were not always the same as those of the developed countries. Their accounting systems and standards needed to satisfy their own requirements.

7. The observer from FIDEF stated that the objective of his organization was to eliminate gaps in accounting standards between the developing and developed countries. He felt that the gap was bound to exist as long as developing countries did not participate in international standard-setting. Therefore, his organization tried to give its members access to documentation and to promote the formation of professional institutions which could develop standards. Consequently, it should not be taken that nothing was happening about harmonization in that region. The expert from Morocco announced the formation of the Maghreb Accounting Committee by Algeria, the Libyan Arab Jamarihiya, Mauritania, Morocco and Tunisia. Its purpose was to harmonize accounting rules among them and to promote the computerization of accounting information. The expert from Mexico identified a number of accounting problems that were impeding comparability in his country and mentioned that the proposed trade agreement between Canada, Mexico and the United States would require greater harmonization in accounting. In his view it would be preferable to use international accounting standards rather than the national accounting rules of one of the partners.

8. During its second meeting the Group considered the report on national developments in the field of accounting (E/C.10/AC.3/1991/3 and Add.1). Many experts intervened in order to update information on their countries. In particular, experts from countries in transition described accounting reforms that were currently under way. The expert from Hungary said that his country had chosen to incorporate the fourth, seventh, and eighth EC directives into its forthcoming accounting law. It had chosen the EC model over other models because most of its foreign direct investment originated in the EC countries. The EC model also had a firm legal basis and was closer to the Hungarian tradition than, for example, the United States model. However, no model could be lifted and directly applied to Hungary.

9. While the new accounting act had been prepared by the Hungarian Ministry of Finance, there was considerable merit in having a consulting committee to assist in formulating the accounting standards in order to ensure that the views of business

people, accountants and academics would be taken into consideration. Lastly, some practices would be retained, such as the use of the chart of accounts. Most bookkeepers needed the chart as a guide because they were not able to decide which accounts they should use. However, the new chart would be simplified and redrafted to conform to the layout of the new balance sheet and income statement headings.

10. The expert from the Union of Soviet Socialist Republics provided some interesting statistics that were indicative of how fast his country was moving towards a market economy. At the present time there were 260,000 cooperatives; 46,000 peasant organizations; 3,000 joint ventures, 42 per cent of which were operating; and 1,400 commercial banks. Plans for a stock market were under way. The situation was more complicated than in other Central and Eastern European countries because of the sheer size of the Union of Soviet Socialist Republics. Fundamental to the reforms were the law on private enterprise and a draft law on private property. Accounting reforms would be based on international accounting standards. The work was proceeding with the assistance of the international task force organized by the Minister of Finance and the United Nations. The expert from the Soviet Union stated that during 1991 the main documents would be prepared, such as the revised chart of accounts, and it was hoped that a new law would be introduced in 1992.

11. The Brazilian expert announced the introduction of a strategic plan for the improvement of the Brazilian stock market. A total of 50 measures would be undertaken, 10 of them dealing with accounting. For example, historic cost accounting would be eliminated while inflationary conditions persisted, the statement on the sources and uses of funds would be replaced by the cash flow statement and minimum reporting rules would be required for pension funds.

12. The expert from China informed the Group that on 17 December 1990 a stock exchange had been set up at Shanghai. While most of the trading was in bonds, it would later involve stocks as well. The market was linked to other cities via a computerized trading network. A draft legislation on corporations was currently under preparation.

13. In discussing other moves that would increase harmonization, the expert from Sweden explained that his country was overhauling its company law to conform to all EC directives including the accounting directives. The EC observer added that negotiations between the Community and the European Free Trade Associations (EFTA) were being concluded and that EFTA countries would be accepting EC directives including the accounting directives.

14. The expert from the Netherlands described accounting developments in his country, which included conforming to the EC directives, developing a pronouncement on intangibles and improving legislation on the supervision of the stock exchange.

15. The expert from Spain informed the Group that a new general accounting plan had been adopted in his country.